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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHAK/AMEMBASSY ANKARA 5516
RUEHBJ/AMEMBASSY BEIJING 3236
RUEHKO/AMEMBASSY TOKYO 3101
RUEHIT/AMCONSUL ISTANBUL 3759
RUCPDOG/DEPT OF COMMERCE WASHDC
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RHMCSUU/CDR USCENTCOM MACDILL AFB FL
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SIPDIS

SCA/CEN; EEB
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

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SUBJECT: TURKMENISTAN: OMV ESTABLISHES LOCAL PRESENCE;
NEEDS TO "SOURCE" NABUCCO

Classified By: Charge Richard Miles, Reasons 1.4 (b) and (d).

11. (C) On August 5, the Charge met with the newly-arrived expatriate country manager for Austrian energy firm OMV. Although new to Turkmenistan, the manager has had years of experience in Azerbaijan and Kazakhstan. He described himself as "an exploration and production guy" whose job it is to determine whether or not there is enough Turkmen gas to supply Europe. He said that, because of positive developments with the Nabucco pipeline project, OMV, the project's "leading entity," decided that it needed someone "on the ground" in Turkmenistan. As a result of recently signed agreements, Nabucco is no longer a "virtual project," but they need to find a source for its gas. "Without gas, Nabucco has no value." He thought the Turkmen government would eventually allow foreign energy companies to obtain production sharing agreements, or something similar, for the onshore gas deposits. A factor might be finding a way for the Turkmen government to change its policy onshore and still save face. In any case, he argued that the Turkmen understand that they need help from Western firms in order to produce more gas.

12. (C) The OMV manager described his last meeting with now Deputy Chairman for Oil and Gas Baymyrat Hojamammedov as "positive," but repeated Hojamammedov's remark that Turkmenistan will commit to delivering gas to OMV only when OMV can prove that it will take the gas. The manager described it as a "chicken and egg" situation. Despite the interruption of gas exports to Russia, which the manager thought was only temporary, most of Turkmenistan's revenues will continue to come from shipments to Russia. He suggested that Russia will prevail because the Turkmen need the money more than the Russians need Turkmen gas.

13. (C) Concerning the Turkmen-Azeri dispute over their Caspian boundary, he opined that the issue could be "very simple" to resolve. He cited a history of such cases in which countries agree to produce from a field before there is agreement about the boundary. Currently, both Turkmenistan

and Azerbaijan "prefer to lose." He said he would be prepared to advise the Turkmen government on resolving the issue, and thought other energy companies would be willing as well.

14. (C) COMMENT: While the Nabucco project may be making progress, the sourcing issue is fundamental for its eventual implementation. Given that Turkmen gas has figured in projections of Nabucco's viability, OMV's decision to plant someone on the ground and identify gas supplies for Europe makes sense. With new Turkmen pipelines to Iran and China set to be completed by the end of this year, plus a likely resumption of gas exports to Russia sooner or later, Turkmenistan is already overcommitted to its existing customers. Whether or not it can ramp up production relatively quickly in the mid-term will likely hinge on the government's willingness to open onshore fields to foreign companies. END COMMENT.
MILES